Kidley Terminals Inc. 2006 Annual Report

Leaders in Bulk Handling Efficiency

Ridley Terminals Inc. 2006 Annual Report

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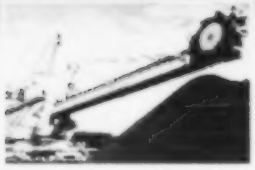

Ridley Terminals Inc. was incorporated under the Canada Business Corporations Act on December 18, 1981. The Company is named in Part I of Schedule III of the Financial Administration Act. Section 143 of the Canada Marine Act provides that the Minister of Transport, Infrastructure & Communities is the Minister responsible for RTI.

The Company operates a marine terminal on Ridley Island in Prince Rupert, B.C. Its train unloading and ship loading infrastructure and equipment are located on land leased from the Prince Rupert Port Authority. RTI plays an important role in supporting Canada's export coal and petroleum coke business and is pursuing diversification into wood pellets, sulphur and other commodities.

The Company's focus is to increase the value of Canada's investment in the terminal, to support the local community of Prince Rupert, and to help Canadian shippers compete more effectively in the international market by minimizing transportation costs.

RIDLEY CHARTER

At Ridley Terminals we believe that our accomplishments are the total product of every person's efforts. Innovation and improvement of our company must come from those who know our business best: our individual team members.

Each R.T.I. team member is entitled to be treated equally as a valued partner with dignity and respect. Our commitment to participative management creates a safe and secure environment in which each team member has the opportunity to contribute and participate in the management and direction of the company.

1. RECOGNITION

The contribution of every team member is recognized and the right of every team member to participate in the challenge of managing is the fundamental principle of our management philosophy.

2. COMMUNICATION

Internal communication creates an atmosphere where problems and concerns may be discussed frankly and openly. Team members accept ownership of their problems in order to resolve outstanding issues. Each team member has the right and ability to discuss their concerns with each other at a convenient time and place and to openly appeal misunderstandings and complaints.

3. GOALS AND OBJECTIVES

The achievement of our corporate expectations is a shared responsibility. Each team sets its own goals within the corporate expectations and assesses its own progress and identifies solutions to its problems.

4. HIRING

Only highly capable and motivated people make our company excel. Every team member is hired on the basis of ability and overall commitment and contribution to the company. All vacancies will be circulated amongst existing team members and only if there are no qualified internal candidates, will a search commence outside the company. Every applicant is interviewed by potential associates or peers; there must be consensus that an applicant meets R.T.I.'s standards.

5. TRAINING

Training, self-improvement and personal growth are fundamental elements of our company philosophy. Opportunities for development of new skills, knowledge and experience are continually identified in directions that best serve the individual and the company.

6. COMPENSATION

In recognition of the contributions of skilled people, R.T.I. will endeavor to maintain competitive salaries - a high level of benefits - work flexibility - and productivity recognition.

Our most important resource is dedicated people who contribute their efforts to ensure that excellence prevails throughout R.T.I. The undersigned accept individual responsibility for personal support and commitment to the foregoing principles.

Forward Looking Statements

Certain statements in this annual report are forward-looking statements and are not historical facts. Inherent in these forward looking statements are risks and uncertainties beyond the control or the ability of the Company to predict. Future results may vary materially from any results stated or inferred by forward looking statements contained herein.

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LETTER FROM THE BOARD

February 2007

The Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure & Communities

Dear Mr. Minister:

We are pleased to present to you the annual report for Ridley Terminals Inc. for the year ended December 31, 2006.

Following the approval of the Company's 2006 to 2010 corporate plan in June 2006, Ridley Terminals Inc. has signed a long-term contract with Western Canadian Coal Corp. for handling coal from their Northeast BC mines. Ridley Terminals Inc. has also signed a project agreement with ICEC Terminals Company Ltd. that management expects will lead to the signing of long-term sublease and operating agreements in 2007. Negotiations towards long-term contracts are underway with a number of other parties, including Houston Pellet Inc. (for the handling of wood pellets), Luscar Ltd. and Peace River Coal Limited Partnership. The Board believes that the signing of these contracts will firmly establish the Company's financial stability for years to come.

During 2006 the volume handled at Ridley Terminals Inc. almost tripled. The additional revenue this brought into the Company significantly improved the financial results for the year, but were not yet enough to enable Ridley Terminals Inc. to achieve a positive cash flow from operations. We would like to express our gratitude for the Crown's continued financial support for Ridley Terminals Inc. during this year. The contributions the Company has received (which were less than half of the contributions required in each of 2004 and 2005) have allowed Ridley Terminals Inc. to continue to operate.

The term of our Board Chair, Mr. Michael J. Tarr expired in May of 2006. The Board would like to thank Mr. Tarr for his years of service as the Chair and CEO of Ridley Terminals Inc.

We would also like to take this opportunity to express our thanks to management and all the team members of Ridley Terminals Inc. Without their efforts and support the significant progress made by the Company in meeting its objectives would not have been possible.

Respectfully submitted by the Board of Directors of Ridley Terminals Inc.,

Penelope A. Denton

Wayne Stoilen

Susanne Stushnoff

Rhoda Witherly

REPORT FROM THE PRESIDENT

Ridley Terminals Inc. made significant progress during 2006. The Company is reporting a profit again after reporting losses for four of the last five years. Volumes handled almost tripled over the volumes handled in 2005, and the safety and environmental records of the Company were excellent. None of these accomplishments would have been possible without the efforts of all our employees, and to them I offer a heartfelt Thank You!

The last few years have seen an increasing effort to set and achieve targets as this process is fundamental to our management systems. The participation of all of the management team in working towards these targets has contributed significantly to our success. I would like to take this opportunity to highlight some of our accomplishments in each of the areas where the Ridley Terminals Inc. has set its targets.

Marketing

As volumes handled through the terminal declined steadily between 2000 and 2005, marketing became a key objective for Ridley Terminals Inc. The Company's marketing targets included both handling additional volumes of coal and diversifying into other commodities.

The volume of coal handled by Ridley Terminals Inc. increased from 632,000 tonnes in 2005 to over 2.3 million tonnes in 2006. This increase was primarily attributed to two of our customers: Western Canadian Coal Corp. (WCC) and Luscar Ltd.

During 2006 the Company signed a long-term contract with WCC that will see substantially all of WCC's coal handled at the terminal. In August 2006 WCC successfully commissioned their Wolverine metallurgical coal mine, and this volume is now coming steadily through the terminal.

Luscar Ltd. began regular shipments of their Coal Valley thermal coal to Ridley Terminals Inc. during 2006. This was a welcome addition to our business, made possible in large part by the cooperation of CN Rail to coordinate these movements. Luscar Ltd. and the Company are currently discussing a long-term contract to continue these shipments.

Ridley Terminals Inc. did not handle any new commodities in 2006, but significant progress was made on two diversification projects. Following the approval of the Company's 2006 to 2010 Corporate Plan by Cabinet in mid-year, the Company signed a project agreement with ICEC Terminals Company Ltd. that we are hopeful will lead to the commencement of sulphur shipments from the terminal in 2008. At year-end work was underway on the environmental assessment document for this project.

In the fourth quarter of 2006 Houston Pellet Inc. began construction of a wood pellet receiving facility. This project should be complete and in operation by the second quarter of 2007. We are excited to see this project move forward so quickly, and welcome this additional diversification of our operations.

Human Resources

The ability of Ridley Terminals Inc. to perform well and meet its customers' needs is dependent on the strength of its workforce. The size of the workforce increased 30% during 2006, and additional employees will be hired in the first quarter of 2007.

In order to ensure that the quality of the workforce was maintained, the Company reviewed its hiring process at the beginning of the year. New screening tests were added to the process, which already included interview panels with participation from both management and shop-floor employees and thorough reference checks of new applicants. I welcome aboard these new employees, and anticipate long and productive relationships in the years to come.

Once the new employees are on board, thorough training is essential to ensure they can do their work safely and productively. Most of Ridley Terminals Inc.'s existing employees have played an essential role in completing this training, and I thank them for their willingness to share their extensive knowledge of our operations with their new coworkers.

A highlight for me in 2006 was an exceptional record of attendance by our employees. The attendance record of our employees has been improving since 2002, but the improvement this year was dramatic. 24 employees had perfect attendance in 2006, and average absenteeism was 2.9 days per year per employee. This is significantly better than last year's average of 5.1 days, and the 2005 National average of 7.8 days. Congratulations to all of our employees for this excellent performance.

Cost Effectiveness

Cost effectiveness is an important part of the Company's overall plan for long-term success. Ridley Terminals Inc. operates in a competitive business environment, competing not only with the two coal terminals in Vancouver, but with all of the coal terminals in Australia. In order for our customers to be successful in the long-run, Ridley Terminals Inc. needs to operate a low-cost terminal so that we are in a position to help our customers weather the inevitable downturns in the coal market.

In this regard, Ridley Terminals Inc. continued its efforts to develop a multi-skilled work force. A number of the new operators hired in the last year hold tradesmen's tickets, and some of the Company's existing tradesmen have transferred into operations. Increasing the number of multi-skilled employees will help Ridley Terminals Inc. to operate more cost-effectively in the future.

The Company also continued its investigation of automation options in 2006. Ridley Terminals Inc. believes that automation of the stacker-reclaimers can be accomplished, and has provided for this in the 2007 capital budget. Automation of these machines will reduce the manning requirements at the terminal, particularly during ship loading operations. This will provide the Company with a greater flexibility in the use of its workforce, particularly as wood pellets and sulphur begin to come through the terminal.

Health & Safety

It is a key goal of Ridley Terminals Inc. to operate without any lost time accidents. During the first quarter of 2006 there was one lost time accident that resulted in one lost work day. At the time of writing this report, the Company was close to achieving 12 months without a lost-time accident. This will be the 3rd time in the last five years that Ridley Terminals Inc. had completed at least 12 months without a lost time accident.

All of our employees are proud of our safety record, and we continually seek to improve this performance. One of the steps the Company has in place to support this target is a hazard assessment program. We use this program to ensure that any hazards associated with a new product or task have been identified, and that appropriate mitigation strategies are put in place to minimize the risks that have been identified.

Environment

Ridley Terminals Inc. is very proud of its environmental record. One measurable indicator of this record is the average amount of total suspended solids (TSS) released to the environment from the terminal's settling pond. The TSS has decreased steadily since 2002 and reached its lowest level on record in 2006.

During 2006 Ridley Terminals Inc. was added as a Responsible Authority under the Canadian Environmental Assessment Act. This new responsibility provides the Company with direct influence over the environmental approval process for new projects on the site. The Company's land is leased from the Prince Rupert Port Authority (PRPA), and the PRPA also has status as a Responsible Authority for any new development on port land. Ridley Terminals Inc. and PRPA have worked cooperatively during the environmental review process to ensure that project proponents can complete the process without undue delays. This resulted in the prompt completion of the environmental review process for the wood pellet facility that is now under construction.

Quality

Finally, I would like to add a few comments on the results of our quality management system. The best indicator of our success is the results of our annual customer survey. In that survey, all of our customers expressed that they either agreed or strongly agreed that Ridley Terminals Inc. was meeting their expectations.

The Company expects to return to operating 24 hours per day, 7 days per week in 2007. The resumption of 24 hour operations will enable us to be even better at meeting our customers' expectations.

In conclusion, I believe that our employees can take pride in our accomplishments of 2006 and I look forward to even greater results in 2007 as we continue our efforts together.

Gregory A. Slocombe
President & Chief Operating Officer

MARKETING

Be the Terminal of Choice for coal, petroleum coke and other products

TARGET 2006 >
Obtain shipments from Grande Cache and Cheviot coal mines in Alberta
RESULT 2006 >
Marketing efforts continue but no coal received from Grande Cache or Cheviot in 2006

TARGET 2006 >
Obtain approval to sign long-term contracts
RESULT 2006 >
Directive rescinded in February and Corporate Plan approved in June, allowing contracts to be signed

TARGET 2006 >
Identify a use for the bulk liquid tanks
RESULT 2006 >
Various discussions underway but no project yet selected to proceed

TARGET 2006 >
Identify other products that can be handled
RESULT 2006 >
Construction of wood pellet facility commenced in fourth quarter of 2006

MARKETING TARGETS FOR 2007

> Increase volume of coal and petroleum coke handled in 2007
> Work with CN to re-direct Alberta coal to the terminal
> Identify a use for the bulk liquid tanks
> Evaluate at least one other product that can be handled through the terminal
> Complete sulphur agreements and commence construction
> Commence and grow shipments of wood pellets

COST EFFECTIVENESS

Improve operational efficiency, workforce productivity and cost effectiveness

TARGET 2006 >
Improve Tonnes loaded per man-year to average from CETOA benchmark
RESULT 2006 >
RTI operated at approximately 50% of the CETOA benchmark in 2006

TARGET 2006 >
Identify benchmark(s) for the work order backlog and meet these benchmark(s)
RESULT 2006 >
No progress on this objective in 2006

TARGET 2006 >
Equipment down time per operating hour less than 5%
RESULT 2006 >
Equipment down time during ship loading was 3.79%

TARGET 2006 >
Identify and benchmark measures of productivity
RESULT 2006 >
Approached CETOA to establish benchmarks without success

COST EFFECTIVENESS TARGETS FOR 2007

> Implement automation and technology upgrades
> Identify and implement productivity benchmarks
> Reduce terminal equipment delays to less than 5% of operating hours
> Develop an incentive program for improved productivity
> Continue development of multi-skilled workforce (Add 4 new multi-skilled employes)

HEALTH & SAFETY

A safe, healthy and accident-free workplace

TARGET 2006 >
No lost time accidents or lost work days in 2006
RESULT 2006 >
1 lost time accidents, totaling 1 lost day, occurred in 2006

TARGET 2006 >
Improve effectiveness of Planned Inspections
RESULT 2006 >
Average time to complete was 136 hours compared with 51 hours in 2005

TARGET 2006 >
Maintain Port Facility Security Plan to Transport Canada standards
RESULT 2006 >
Plan continues to meet Transport Canada standards

TARGET 2006 >
Conduct hazard assessment on new products and tasks
RESULT 2006 >
3 hazard assessments completed

HEALTH & SAFETY TARGETS FOR 2007

> Maintain focus on no lost time accidents or lost work days
> Improve effectiveness of Planned Inspections by completing within 30 days
> Seek agreement with union on implementing a safety review program
> Conduct hazard assessment on new products and tasks
> Implement a due diligence action plan

ENVIRONMENT

Meet or exceed all Environmental regulatory requirements

TARGET 2006 >
Maintain or reduce total suspended solids (TSS) to the ocean at 2005 levels

RESULT 2006 >
TSS was an average of 15mg/l compared with an average of 25 mg/l in 2005 and a permitted average of 85mg/l

TARGET 2006 >
Exceed compliance requirements with respect to emissions or spills in 2006

RESULT 2006 >
Wood chips removed from site and new projects reviewed with Fisheries Canada

TARGET 2006 >
Conduct hazard assessment on new products and tasks

RESULT 2006 >
Environmental assessment completed under CEAA for wood pellet project

ENVIRONMENT TARGETS FOR 2007

> Maintain or reduce levels of released contaminants below those set by permit or legislative requirements
> Ensure potential cross-contamination of different products on site meets customer requirements
> Develop and implement plan to control product spills in dumper
> Complete environmental assessments for new or expanded business according to CEAA requirements

QUALITY

Meet or exceed customer and stakeholder requirements

TARGET 2006 >
Improve train unloading time in 2006 compared with 2005

RESULT 2006 >
Average time to handle coal unit trains decreased from 11.30 hours to 10.68 hours

TARGET 2006 >
Improve ship loading time in 2006 over 2005

RESULT 2006 >
Ship loading time was slower, decreasing to 1,561 tonnes per hour from 2,258 tonnes per hour in 2005

TARGET 2006 >
Improve Conveyor 404 scale reliability

RESULT 2006 >
Selected new scale technology and commenced engineering work for installation

TARGET 2006 >
Identify and address specific customer requirements

RESULT 2006 >
Coal screening completed for customer to improve product quality

TARGET 2006 >
Develop an incentive program for improved productivity

RESULT 2006 >
Deferred to be addressed during collective bargaining in 2007

QUALITY TARGETS FOR 2007

> Maintain or improve customer satisfaction, as measured by the annual customer survey
> Improve coal train unloading time in 2007 compared with 2006
> Improve ship loading rate in 2007 over 2006
> Achieve ship loading scale reliability within 1% of draught survey results
> Improve coal yard utilization

HUMAN RESOURCES

To be the Employer of Choice

TARGET 2006 >
Conduct a review of succession planning and develop a succession plan

RESULT 2006 >
Succession Plan in development at year-end

TARGET 2006 >
Improve employee morale

RESULT 2006 >
Third consecutive year of reduced non-work related sick days

TARGET 2006 >
Become one of the 50 Best Small Employers in Canada

RESULT 2006 >
Insufficient employee participation in 2005 to be ranked

TARGET 2006 >
Develop innovative and effective training and apprenticeship programs

RESULT 2006 >
Working with Northwest Community College to develop appropriate programs

TARGET 2006 >
Improve team member participation in ISO

RESULT 2006 >
2 new employees participating as internal auditors

TARGET 2006 >
Review and update hiring procedures to reflect industry best practice

RESULT 2006 >
Pre-employment screening and testing now in place

HUMAN RESOURCES TARGETS FOR 2007

> Complete succession planning process
> Maintain focus on employee work attendance, improving upon 2006's industry-leading performance
> Become one of the "50 Best Small Employers in Canada" by 2008
> Develop innovative and effective training and apprenticeship programs to meet requirements for multi-skilled employees
> Improve team member participation in ISO
> Complete hiring and training of expanded workforce

MARKETING

Objective

Be the Terminal of Choice for coal, petroleum coke and other products

Targets

- > Obtain shipments from Grande Cache and Cheviot coal mines in Alberta
- > Obtain approval to sign long-term contracts
- > Identify a use for the bulk liquid tanks
- > Identify other products that can be handled

Marketing is a key activity for Ridley Terminals Inc. Signing long-term contracts to handle additional volumes of coal and diversifying into other commodities are key objectives for the Company. Ridley Terminals Inc. will remain profitable if additional revenue can be generated.

Target: Obtain shipments from Grande Cache and Cheviot coal mines in Alberta

Metallurgical coal from the Grande Cache and Cheviot mines in Alberta is currently delivered to coal terminals in Vancouver. These terminals are the traditional service providers for the Alberta coal mines because the rail distance from these mines to Vancouver is shorter than the rail distance to Ridley Terminals Inc. in Prince Rupert, and as a result the rail charge has also been less. While no volume was received from these mines in 2006, the circumstances described below could lead to success in this target in 2007.

Congestion on the rail line from Alberta to Vancouver has continued to grow in recent years. As a result, it is now possible for unit trains to achieve a considerable time savings traveling to Prince Rupert instead of Vancouver, and management believes that the railway is now setting its prices in a way that will encourage the Alberta coal mines to shift at least part of their volume from the Vancouver terminals to Ridley Terminals Inc. The volumes received in 2006 from the Coal Valley thermal coal mine in Alberta would not have come to Ridley Terminals Inc. without the cooperation and assistance of the railway.

Management continues to work with the railway to bring some of the coal from the Grande Cache and Cheviot coal mines to Ridley Terminals Inc. One of the challenges to moving this volume is the ability of the Company's rail car dumper to handle aluminum train sets. The majority of the coal from these mines is currently delivered to Vancouver in aluminum train sets, but the dumper at Ridley Terminals Inc. cannot unload aluminum train sets without uncoupling and re-coupling these cars. The extra time necessary to uncouple and re-couple the cars means that some of the time savings associated with bringing these train sets to Prince Rupert is lost.

Ridley Terminals Inc.'s 2007 capital budget includes funds allocated for modifications to the rail car dumper to enable the handling of aluminum cars without the need for uncoupling. Completion of this project will likely also require some financial participation from the railway. During 2007 the Company will seek to work with the railway to move forward with these modifications and to reach an agreement with the Grande Cache and/or Cheviot coal mines to shift at least part of their volume to Ridley Terminals Inc.

Target: Obtain approval to sign long-term contracts

Ridley Terminals Inc. primarily provides terminal services to coal mines. The development and operation of a mine is typically a long-term venture, often stretching over decades. It is therefore normal business practice for a terminal and a mine to enter into a long-term agreement so that the mine has assurance of a place to handle its product for sales to its overseas customers. During 2005 the Company's ability to enter into long-term agreements had been restricted by a directive issued by Cabinet.

In February 2006 Cabinet rescinded the order restricting the Company's ability to sign long-term contracts, subject to the approval of 2006-2010 Corporate Plan. That Plan was approved in June 2006, following which two contracts have been signed. Other long-term contracts are currently under negotiation.

Target: Identify a use for the bulk liquid tanks

The original sulphur terminal project was designed to store and load liquid sulphur. As the liquid storage and ship loading assets are not required for the revitalized sulphur project (discussed below), the Company has also looked to find another use for these assets. Discussions have been held with a number of parties over possible uses of these assets for handling a number of different liquid products. During 2007 efforts will continue to find a party with a viable commercial proposal for the use of the tanks.

Target: Identify other products that can be handled

One of the contracts signed following the approval of the Company's 2006-2010 Corporate Plan was a project agreement with ICEC Terminals Company Ltd. This project agreement is expected to lead to long-term sublease and operating agreements for the development and operation of a sulphur handling business. By 2008 Ridley Terminals Inc. expects to be receiving liquid sulphur, forming the sulphur into pellets and loading those pellets onto vessels.

At the end of 2006 Ridley Terminals Inc. was also finalizing a project agreement with Houston Pellet Inc. for the handling of wood pellets at the terminal. As with the sulphur

operation, this project agreement should lead to long-term sublease and operating agreements that will result in wood pellets being received, stored and loaded from the terminal. This operation is expected to begin operation in 2007.

Ridley Terminals Inc. continues to actively look at other products that could be handled. In addition to various discussions over handling liquids (as noted above) the Company has discussed possible shipment of many other commodities, including aggregate, wood chips, iron ore pellets, copper concentrate and potash. During 2007 management will continue to respond to requests from, and to actively seek out, third parties that could lead to a further diversification of the company's operations.

COST EFFECTIVENESS

Objective

Improve operational efficiency, workforce productivity and cost effectiveness

Targets

- Improve Tonnes loaded per man-year to average from CETOA benchmark
- Identify benchmark(s) for the work order backlog and meet these benchmark(s)
- Equipment down time per operating hour less than 5%
- Identify and benchmark measures of productivity

As with the need for additional revenue to return the Company to profitability, the need to control expenditures is also very important. Cost control has been an ongoing objective for the Company because of its ability to provide our customers with a competitive advantage over the terminals in Vancouver, BC and in Australia.

Most bulk commodities are sold into cyclical markets. While coal prices are currently at record high levels, this is not expected to last indefinitely. Ridley Terminals Inc. believes that having a cost advantage is necessary if the Company is to be successful through the highs and lows of commodity price cycles.

Target: Improve Tonnes loaded per man-year to average from CETOA benchmark

CETOA is the Coal Export Terminal Operators Association. Coal terminals from countries around the world, including Canada, Australia, the United States, Indonesia and Columbia are members of CETOA. Each quarter CETOA gathers data on throughput volumes and hours worked from each of its members. In 2006, analysis of this data shows that on average CETOA members loaded 107,000 tonnes per man year.

Ridley Terminals Inc. moved 58,000 tonnes per man year in 2006. This remained below the CETOA average primarily because the terminal continues to operate well below capacity, while many CETOA members operate at full capacity.

Target: Identify benchmark(s) for the work order backlog and meet these benchmark(s)

Ridley Terminals Inc. uses a preventive maintenance program that produces work orders for routine checks of equipment as well as for repairs required due to breakdowns. The backlog is the list of incomplete work orders. During 2006 benchmarks were not identified for the work order backlog as management was fully occupied addressing other priorities.

Target: Equipment down time per operating hour less than 5%

During 2005 equipment delays accounted for 9.0% of the operating time while loading vessels. As a result of a concerted effort by our maintenance employees, this was reduced to 3.8% in 2006. Similar statistics for delays during train unloading have not yet been developed, but the Company expects to complete this project in 2007.

Target: Identify and benchmark measures of productivity

At the bi-annual meeting of CETOA in October 2006, the Company sought the association's support in developing productivity benchmarks that could be used by all of the members to assess the effectiveness of their operations.

After considerable discussion, CETOA members decided that the differences between the operating methods of the members would make comparisons between the operations impractical. In 2007 Ridley Terminals Inc. will seek to find other organizations against which it can benchmark its operations.

HEALTH & SAFETY

Objective

A safe, healthy and accident-free workplace

Targets

- > No lost time accidents or lost work days in 2006
- > Improve effectiveness of Planned Inspections
- > Maintain Port Facility Security Plan to Transport Canada standards
- > Complete hazard assessment on new products and tasks

Ridley Terminals Inc. believes its overall safety record is excellent, particularly with respect to minimizing the number of lost-time accidents. Achieving the Company's target of no-lost time accidents will be the ultimate indicator of the success of the safety system at Ridley Terminals Inc.

Target: No lost-time accidents or lost work days in 2006

In the first quarter of 2006 one lost-time accident occurred, resulting in 1 lost day. While this is a significant improvement over 2005, the Company's objective was not met. By the time this annual report is presented Ridley Terminals Inc. hopes to have completed 12 full months without a lost time accident, and to continue lost-time accident free throughout 2007.

Ridley Terminals Inc. recognizes the legal and moral obligations of the Company to its employees. In order to provide a safe and healthy work environment the Company has in place a Health & Safety management system that identifies risks and promotes continual improvement. This management system is registered to the British OHSAS 18001 standard.

There are a number of ongoing activities that are helping the Company to have a safe work environment. Each team holds monthly safety meetings where safe operating procedures are reviewed. Daily awareness of safety issues is ensured through pre-job tailgate meetings. Quarterly safety barbecues are held every time the Company completes three months without a lost time accident. Particular attention will be made in 2007 to ensure the employees hired in the last year are complying with essential safety procedures such as confined space entry, fall protection and lock-out of equipment during repairs.

Lost Time Accident Record

Year	2002	2003	2004	2005	2006
Lost time accidents	2	2	0	3	1
Lost days	4	9	0	15	1

Target: Improve effectiveness of Planned Inspections

Ridley Terminals Inc. uses a Planned Inspection program to ensure that all areas of the site are inspected on a regular basis. All of the management team and the members of the Safety Committee participate in these inspections.

Completion of the planned inspections was very poor in 2006. The target to complete the inspections is 30 days, but the average time taken to complete the inspections was 136 days. While a concerted effort was made to catch up during the third quarter of 2006, at the end of the year inspections on four of the seven routes were overdue.

Year	2003	2004	2005	2006
Average days required to complete planned inspection	41	31	51	136

Individual performance by members of the management team will be tracked in 2007.

HEALTH, SAFETY, ENVIRONMENTAL AND QUALITY POLICY

At Ridley Terminals Inc. we believe that the health and safety of people, protecting the environment and customer satisfaction are of paramount importance. Ridley Terminals Inc. is committed to:

> Satisfying customer requirements consistently and cost effectively.

> Preventing accidents, injuries, illness and environmental pollution.

> Meeting all organizational standards and legal requirements.

> Ensuring that health, safety and environmental aspects are identified, assessed and managed.

> Responding quickly and effectively to incidents and concerns related to our operations.

> Following defined control practices and procedures.

> Setting objectives and targets for continuous health, safety, environmental and quality improvements.

Target: Maintain Port Facility Security Plan

The Company's Port Facility Security Plan continued to meet Transport Canada's requirements throughout 2006. Ongoing tests of the security plan are performed to ensure the Company's security plan is operating effectively. Additional training of the Operations Coordinators and security employees was completed in the fourth quarter of 2006. Ridley Terminals Inc. plans to continue to meet Transport Canada's requirements during 2007.

Target: Complete hazard assessment on new products and tasks

Ridley Terminals Inc. has a pre-job hazard analysis procedure that is used prior to handling any new products and prior to performing any unusual operating or maintenance tasks. During 2006 the Company reviewed the hazards associated with:

> loading geared vessels at the Company's berth;
> handling wood pellets in the new wood pellet facility;
> replacing the walkway on an overhead conveyor crossing a public road; and
> using a helicopter to lift a large roller up to the ship loader.

ENVIRONMENT

Objective

Meet or exceed all environmental regulatory requirements

Targets

> Maintain or reduce total suspended solids to the ocean at 2005 levels
> Exceed compliance requirements with respect to emissions or spills in 2006
> Conduct hazard assessment on new products and tasks

Ridley Terminals Inc. maintains an Environmental Management System registered to the ISO 14001-2004 standard. This management system helps the Company to reach its objective: to meet or exceed all environmental regulatory requirements. As a result, Ridley Terminals Inc. continues to have an excellent environmental record.

Target: Reduce or maintain total suspended solids to the ocean

Ridley Terminals Inc. operates under two environmental permits issued by the BC Ministry of the Environment. One permit is for air emissions from the site and the other is for the water outflow from the Company's settling pond.

The water permit sets a limit on the total suspended solids (TSS) that may be released to the ocean in the outflow from the terminal's settling pond. In 2006 the TSS fell to an average of 15 milligrams per litre, compared with a level of 25 milligrams per litre in 2005. This level is well below the average of 85 milligrams per litre set by the permit.

Target: Exceed compliance requirements with respect to emissions or spills

In 2004 Ridley Terminals Inc. shipped a test shipment of wood chips from the site. Following this test shipment there remained a small supply of wood chips on the site. Environment Canada and Fisheries Canada had advised the Company that continued storage of the wood chips could result in a leachate entering into, and having an impact upon, the nearby marine environment. During 2006 the Company made final arrangements with the shipper to have the wood chips removed from the site. As a result there is no longer any risk of an adverse environmental impact on the marine environment from the wood chips.

Target: Conduct hazard assessment on new products and tasks

During 2006 the Crown implemented changes to the Canadian Environmental Assessment Act (CEAA) that resulted in Ridley Terminals Inc. becoming a Responsible Authority as defined by CEAA. As a result of this change the Company administers the application of CEAA to

new projects affecting the site. This provides for a formal process and sign-off for new projects on the site.

The first project to undergo a screening in accordance with CEAA was the wood pellet project proposed by Houston Pellet Inc. During 2006 an Environmental Assessment Document (EAD) was prepared and posted on the CEAA website as part of the public consultation process. An EAD outlines the environmental risks associated with a project and the mitigation measures that will be taken to minimize those risks. The wood pellet project completed the screening process in 2006 and construction was underway at year end.

ICEC Terminals Company Ltd. was in the process of completing an EAD for their proposed sulphur project during 2006. This EAD is expected to be completed and posted on the CEAA web site in the first quarter of 2007. Once it has been posted, the public consultation period for this project will commence.

QUALITY

Objective

Meet or exceed customer and stakeholder requirements

Targets

- > Improve train unloading time in 2006 compared with 2005
- > Improve ship loading time in 2006 over 2005
- > Improve Conveyor 404 scale reliability
- > Identify and address specific customer requirements
- > Develop an incentive program for improved productivity

Ridley Terminals Inc. employs an effective quality management system that focuses on continual improvement in quality and increased customer satisfaction. This quality management system is registered to the ISO 9001-2000 standard.

In order to meet customer expectations with regard to quality, the Company focuses on identifying and addressing the needs of each customer. This section of the annual report will demonstrate some of the specific accomplishments of Ridley Terminals Inc. in 2006.

Target: Improve train unloading time in 2006 compared with 2005

In 2005 Ridley Terminals Inc. unloaded 73 unit trains of coal. The average time those trains were on site was 11.30 hours. In 2006 the Company unloaded 242 trains

QUALITY MISSION STATEMENT

At a meeting of the Board of Directors on December 2, 1996 RTI adopted its Quality Mission Statement. This statement was the foundation for the terminal's subsequent registration under ISO 9002-1994 (now ISO 9001-2000).

The Quality Mission Statement is as follows:

> Ridley Terminals Inc., as a marine terminal, provides continuous, high quality and high performance rail car unloading, product storage and vessel loading services.

> At Ridley Terminals Inc. our customers are our reason for being. To help our customers deliver the best possible product, we are committed to providing the best quality service in a cost effective way.

> To fulfill this commitment we operate in a participative management environment, as outlined in the Ridley Charter. Building on a proven history of uninterrupted service, all team members of Ridley Terminals Inc. work to satisfy the needs and desires of our customers efficiently and effectively.

which were on site for an average of 10.68 hours. This represents a 5% improvement in performance.

During 2006 Ridley Terminals Inc. worked a shift of 12 hours per day, 7 days per week. As a result, many trains arrived during the night when the terminal was not staffed, or late in the working shift when there were not enough hours left to complete the unloading of the train. The reduction in average handling time achieved in 2006 was in large part due to the willingness of the Company's employees to work overtime at the end of their shifts to handle as many trains as possible.

In addition to handling coal, the Company unloaded 107 sets of rail cars of petroleum coke in 2006. The average time those sets of cars were on site was 40.99 hours. This was in increase in the average handling time compared with 2005, when 145 sets of rail cars of petroleum coke were on site for an average of 33.68 hours. The longer time taken to unload petroleum coke cars is primarily because there is a significant difference in the railway's tariff for handling unit trains of coal and sets of petroleum cars.

The railway tariff requires unit trains to be unloaded in 6 hours, while sets of petroleum coke cars have up to 48 hours to be unloaded. As a result of this difference, the unloading of unit trains of coal takes precedence over the unloading of sets of petroleum coke cars.

Target: Improve ship loading time in 2006 over 2005

In 2005 ships were loaded at an average rate of 2,258 tonnes per hour. This rate decreased to 1,561 tonnes per hour in 2006. This decrease was in part a result of the significant increase in the number of ships loaded, from 25 in 2005 to 58 in 2006.

With the increase in the number of ships, the occurrence of ships bunching together increased. As a result, on a number of occasions there was a ship waiting at anchor to be loaded. After the first 12 hours, the time spent waiting to load has a negative effect on the average loading rate because the time is counting but nothing is being loaded.

Ridley Terminals Inc. expects the average loading rate to improve in 2007 when the terminal returns to operating 24 hours per day, 7 days per week.

Target: Improve Conveyor 404 scale reliability

Ridley Terminals Inc. does not have scales that provide weights which are legal for tender; rather, the scales are used to help monitor operations, particularly during ship loading. The scale weights are regularly compared to the ship draught survey, which provides the actual weight of coal loaded on the vessel for invoicing purposes. This comparison has identified that the scale weights do not provide consistent information.

During 2006 the Company investigated options for improving the accuracy of the scale on conveyor 404, which delivers all of the coal to the ship loaders on the berth. In the last quarter of 2006 a decision was made to replace this scale with a new scale, and to locate the scale on another part of the conveyor. Management believes that these changes will provide a much more accurate weight of coal traveling over conveyor 404. This project will be completed in 2007.

Target: Identify and address specific customer requirements

During 2006 one of the Company's customers discovered that some of their coal did not meet their customer's specifications because of some rock that was mixed in with the coal. In order to assist the customer in dealing with this quality issue, the Company arranged to have the customer's product screened at the terminal to remove any other rocks that may have been mixed in with the coal.

In order to identify the overall satisfaction of its customers, Ridley Terminals Inc. began customer satisfaction surveys in 2004. The results of these surveys are summarized in the following table:

Year	Number of Customers Surveyed	Degree to which Customer Expectations were met	Areas for improvement
2004	4	4.25/5	Prefer 24 hour operation
2005	4	4.45/5	Prefer 24 hour operation Need ability to sign long-term contracts
2006	9	4.47/5	Prefer 24 hour operation Rail and tug costs high

Target: Develop an incentive program for improved productivity

During 2006 the Board of Directors and management considered the implementation of an incentive program for improved productivity. In December 2006 the Board

approved the implementation of such a plan for the management team. This plan will provide a formal link between compensation and performance, and is expected to help improve the Company's productivity in 2007.

Management also plans to implement incentive programs for all other employees. This issue will be addressed with the unionized workforce during collective bargaining in 2007. A program for the non-union employees will also be developed and implemented.

HUMAN RESOURCES

Objective

To be the Employer of Choice

Targets

- Conduct a review of succession planning and develop a succession plan
- Improve employee morale
- Become one of the 50 Best Small Employers in Canada
- Develop innovative and effective training and apprenticeship programs
- Improve team member participation in ISO
- Review and update hiring procedures to reflect industry best practice

Press reports continue to emphasize the shortage of skilled workers in British Columbia. In order for Ridley Terminals Inc. to be able to attract, train and keep the workers it needs, the Company has established its human resources objective to be the Employer of Choice. Highlighted below are some of the specific actions the Company is taking to attain this objective.

Target: Conduct a review of succession planning and develop a succession plan

Approximately one-half of the management team could retire within the next five years. As a result the Company identified the need to formalize a succession plan.

The challenge in developing a succession plan for Ridley Terminals Inc. is that the Company operates with a very flat management structure. While this structure provides fewer opportunities for succession, steps are being taken to identify internal candidates with management abilities. These employees will be provided with appropriate training opportunities to help prepare them for future opportunities when they arise. The Company will rely on outside hiring to supplement this internal development of employees.

Target: Improve employee morale

The financial difficulties faced by Ridley Terminals Inc. in the last five years, and in particular the downsizing that occurred as a result of these financial difficulties, had a negative impact on employee morale. The financial turnaround that began in 2006 and is continuing into 2007 is a very important factor in improving employee morale.

This turnaround has resulted in a 30% increase of the workforce during 2006. The enthusiasm brought by these new employees, and the pride shown by our existing employees in training these new employees, has had a positive impact on employee morale.

Ridley Terminals Inc. has also continued its incentive system that rewards employees for each year without any sick days. Annual rewards are provided for team members who

have gone one year without a sick day, and larger rewards are provided for team members who have completed two or more years without a sick day. In 2006 12 team members had one year, 5 team members had two years and another 7 team members had three or more years without a sick day. In 2005 the numbers were 10, 3 and 5 respectively.

This program's success is measurable, as the non-work related sick days continued to improve against the National and Provincial averages. The following table shows the average number of non-work related sick days lost per employee for the Company, as compared to the National and Provincial averages.

Average Non-Work Related Absences per Employee

	2002	2003	2004	2005	2006
Ridley Terminals Inc.	9.5	7.2	6.5	5.1	2.9
National Average	7.3	7.4	7.5	7.8	na
British Columbia Average	7.8	8.1	7.3	8.5	na

Target: Become one of the 50 Best Small Employers in Canada

The 50 Best Small Employers in Canada survey is sponsored by Queen's University. Companies apply to participate in the survey, and if accepted, individual surveys are sent to all employees and submitted directly to the University for their analysis.

In 2005 Ridley Terminals Inc. applied for the first time to participate in this survey, but an insufficient proportion of the Company's employees submitted surveys and so Ridley Terminals Inc. was not considered for further analysis.

Management decided that there was a low likelihood of obtaining a higher proportion of employee surveys in 2006. As a result, Ridley Terminals Inc. did not participate in the survey. The Company has now targeted to become one of the 50 Best Small Employers in Canada by 2008.

Target: Develop innovative and effective training and apprenticeship programs

Ridley Terminals Inc. and the local Northwest Community College have continued discussions to determine ways of promoting further apprenticeship training in our local community. One potential program would provide pre-apprentice students with work experience at Ridley Terminals Inc. while continuing their education. In order for this program to proceed the Ridley Terminals Inc. and its union need to come to an agreement on the appropriate working conditions for these students. Management plans to address this issue with the union during collective bargaining in 2007.

Target: Improve team member participation in ISO

As noted elsewhere in this annual report, Ridley Terminals Inc. has quality and environmental management systems registered to international ISO standards. The Company also has a health and safety management system registered to the British OSHAS standard. In order for these management systems to remain effective, all employees at the Company need to understand and follow the procedures set out in these management systems.

The management systems include a requirement for an internal audit to confirm that the systems are working effectively. During 2006 two additional employees began to participate as internal auditors, one from the bargaining unit and one from outside the bargaining unit.

The Company also began to review an ISO/OHSAS procedure with all team members at each monthly safety meeting. These regular reviews help to ensure that all team members understand these procedures.

Target: Review and update hiring procedures to reflect industry best practice

As noted above, there was a significant increase in the number of employees at Ridley Terminals Inc. in 2006. The hiring process already included the opportunity for employees from the shop floor to participate in the interviews and selection decision. During 2006 the Company also implemented a pre-employment screening and testing process with the assistance of the local Career Resource Centre.

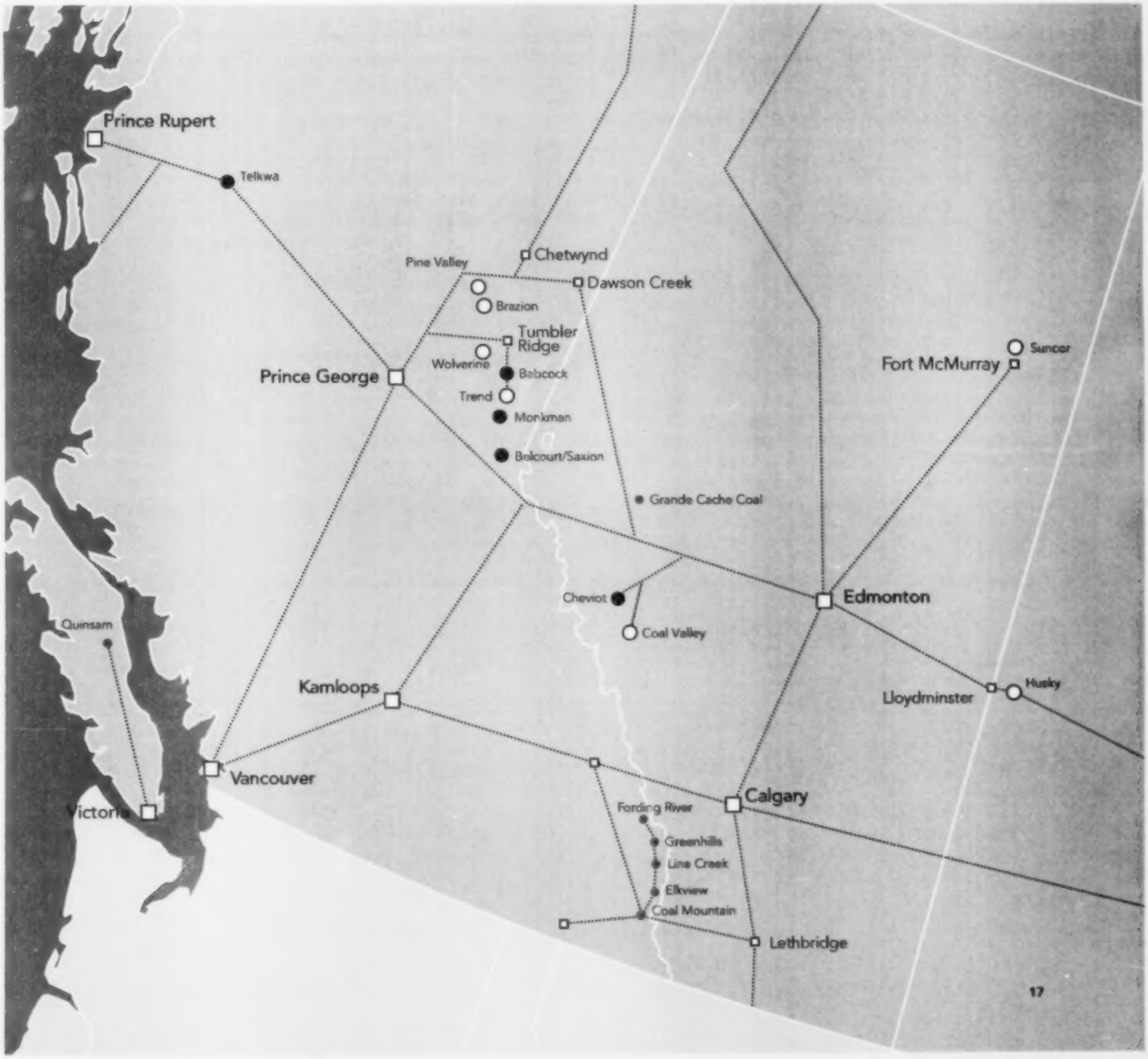
Once on board, all new employees received an extensive orientation to the site, including necessary safety procedures. Training of new employees in their job responsibilities has been thorough, and is still underway for many of these employees.

Ridley Terminals Inc. plans to hire another group of employees in the first quarter of 2007. Management believes that the hiring process developed in 2006 has been successful and these procedures will continue to be used for the hiring of these additional employees.

> RIDLEY TERMINAL TRANSPORTATION LINKS

This map identifies the significant export coal mines of British Columbia and Alberta as well as relevant railway lines within these provinces. Coal mines and petroleum coke producers who currently ship through Ridley Terminals and the proposed coal mines which the Company may service in the future are specifically indicated.

- ○ Existing Producers to Ridley
- ● Proposed Producers to Ridley
- • Coal Mines using Vancouver Rail Line .....
- □ Cities along routes
- ▫ Towns along routes



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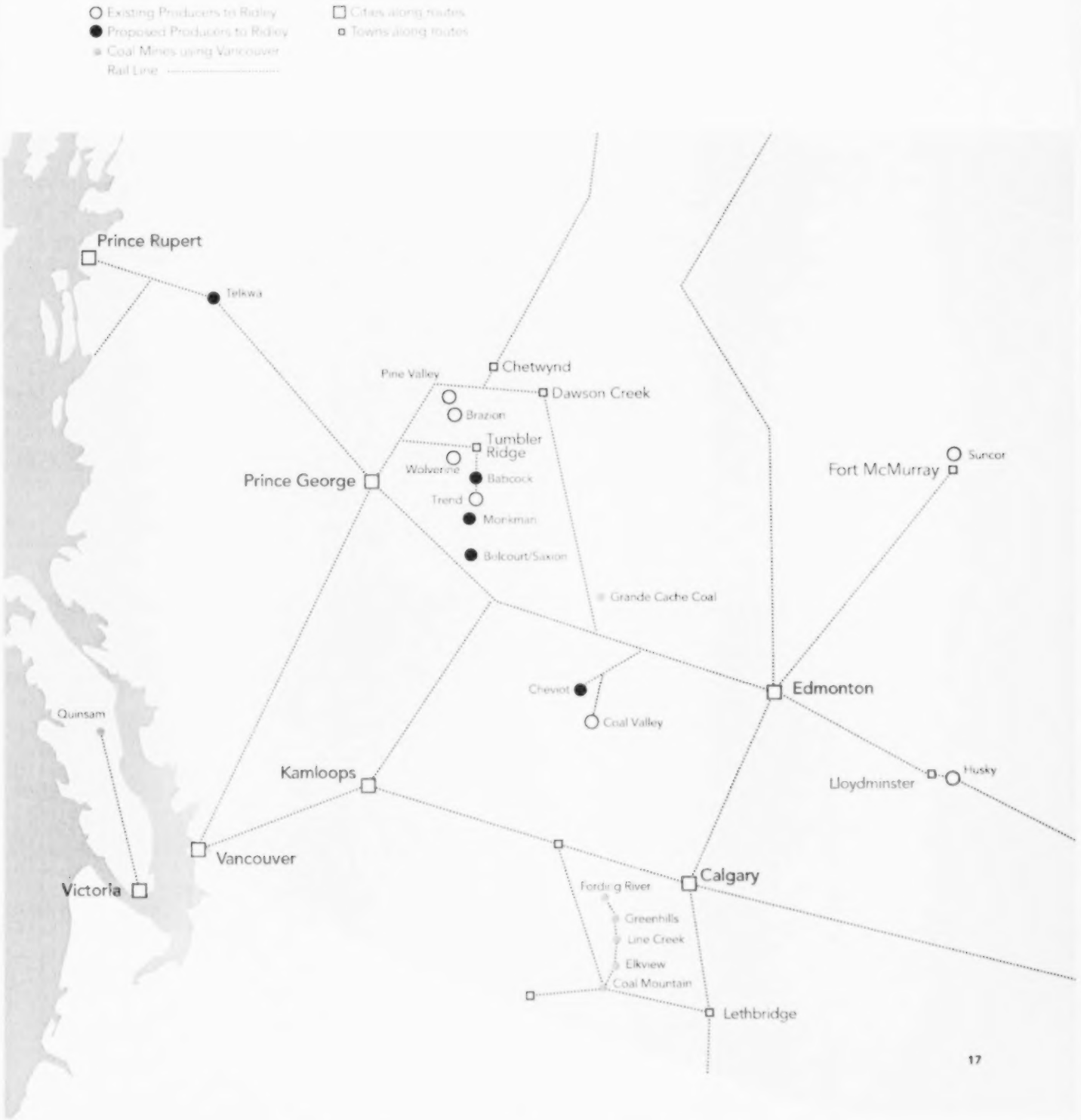

GLOSSARY OF TERMS

Demurrage: The freighter of a ship is bound not to detain it, beyond the stipulated or usual time, to load or deliver the cargo, or to sail. The extra days beyond the lay days (being the days allowed to load and unload the cargo) are called the days of demurrage. The term is likewise applied to the payment for such delay.

Despatch: An incentive payment paid for loading a cargo faster than the stipulated or usual time. The term is likewise applied to the payment for such fast loading.

ISO: The International Organization for Standardization: a global federation of over a hundred national standards bodies with central secretariat in Geneva, Switzerland. An ISO standard is an international standard published by the ISO. For example: ISO 9000 is a widely accepted standard which specifies requirements for a Quality Management System. The ISO 14000 environmental management standards exist to ensure products and services have the lowest possible environmental impact.

Metallurgical Coal: Bituminous coal from which the volatile constituents are driven off by baking in an oven at temperatures as high as 2,000 degrees Fahrenheit so that the fixed carbon and residual ash are fused together forming coke, which along with pulverized coal is consumed in making steel.

OHSAS 18001:1999: An occupational health and safety management systems specification.

Petroleum (pet) coke: Petroleum coke is a carbonaceous solid derived from oil refinery cracking processes. Crude oil must be refined to produce gasoline and other products. A residue is left over from this process that can be further refined by coking it at high temperatures and under great pressure. The resulting product is pet coke, a hard substance that is similar to thermal coal.

Pulverised Coal Injection (PCI) Coal: PCI coal is a grade of bituminous coal crushed into a fine powder and injected into blast furnaces as a replacement for coke in the production of pig iron.

QMI: a division of CSA Group, established in 1984, is a leading North American Management Systems registrar.

Quadrant Slewing Ship Loader: A large machine designed to load vessels. Incorporating a conveyor belt, the ship loader can move in three axes. Slewing: travelling or slewing (radially) parallel to the ship's axis, is accomplished using a quadrant beam and rail along which powered wheel assemblies move the ship loader between vessel hatches; Luffing or vertical movement is achieved using a winch and cable assembly; and Shuttling, or movement perpendicular to the ship's axis, is performed by wheels moving along a rail attached to the ship loader's main support beam.

Rail Car Indexer: A machine used to stage cars into the rotary car dumper. The indexer has an arm, with a head attachment, that fits over the couplings of railcars and using electro/mechanical power on a rail, moves an entire unit train of cars, 1 or 2 at a time into the rotary car dumper for unloading.

Rotary Car Dumper: A mechanism used for unloading certain rail cars such as hopper cars or gondolas. It holds the car to a section of track and rotates the track and car together to dump out the contents. An entire unit train of coal may be dumped without uncoupling any of the cars. The cars used for these trains are equipped with rotary tightlock couplers on one end. The end with the rotary coupler is marked with a colored stripe, typically white, red or yellow. The dumper rotates the cars on the axis of the couplers.

Stacker-Reclaimer: A large machine that has the capability of both stacking bulk materials into storage piles and recovering (reclaiming) the material, using a bucket wheel, from the storage piles. Stacker-Reclaimers are rated in tonnes per hour (tph) for capacity and travel on a rail between stockpiles in the stockyard. It can typically move in three directions - horizontally along the rail - vertically by luffing it's boom and rotationally by slewing it's boom.

Sulphur Pellets/Prills: Elemental Sulphur that has been solidified by any one of a number of processes to form spherically shaped prills or non-spherically shaped pellets or granules.

Thawshed: A building containing infrared natural gas heaters and reflectors, which heats cars in cold weather to minimize the amount of coal remaining in rail cars after unloading.

Thermal Coal: Coal used for steam/power generation or for space heating purposes, including all anthracite coals and bituminous coals not included under coking coal.

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> MANAGEMENT DISCUSSION & ANALYSIS

OPERATIONS

REVENUES

Type of Revenue	2006 ($000's)	2005 ($000's)
Throughput	11,830	4,601
Despatch	464	247
Lines & Berthage	509	173
Storage	0	336
Other	79	95
Total Terminal Revenue	12,882	5,452
Investment Income	44	50
Total Revenue	12,926	5,502

The revenue of the Company is primarily dependent on the volume of coal and petroleum coke handled by the terminal (commonly referred to as its throughput) and the rate paid per tonne handled. This throughput revenue accounted for $11.8 million, out of the total terminal revenue of $12.9 million.

Throughput Volumes

The volume handled comes from a small number of customers, and as a result revenues can fluctuate significantly from year to year if a customer is lost or a new customer is gained. The volumes of coal and petroleum coke handled in 2006 can be broken down as follows:

	2006	2005
'000 Tonnes Received	2,631	1,287
'000 Tonnes Shipped	2,836	1,015

The volumes received (i.e. unloaded from trains) and the volumes shipped (i.e. loaded onto ships) both more than doubled in 2006. The increase in volumes was due to a number of new sources of coal coming to Ridley Terminals Inc.

Western Canadian Coal Corp.'s ("WCC") Dillon mine continued to operate throughout 2006, producing a PCI grade of coal. The Dillon mine is a small deposit, and was close to being depleted at the end of 2006. Subsequent to year end, WCC announced that it planned to open a new PCI coal mine named Brule. The environmental permit for the Brule mine was approved early in 2007. As a result, the volume of PCI coal to be received from WCC should remain constant in 2007.

In the third quarter of 2006 WCC opened the Wolverine mine, producing a metallurgical grade of coal. The Wolverine mine has a much larger capacity than the Dillon mine, and as a result volumes increased in the third and fourth quarters of 2006. This mine is expected to increase total volumes handled by Ridley Terminals Inc. in 2007 as it will be operating for the full calendar year.

The increased volumes handled in 2006 included the commencement of regular shipments of thermal coal from the Coal Valley mine in Alberta. The Company had handled "spot" shipments from Coal Valley in previous years, including one shipment in 2005. Late in 2005 Coal Valley completed an expansion of its mine, and with the cooperation of CN Rail a short-term agreement was reached for part of the additional production from this mine to be shipped through Ridley Terminals Inc. The Company is currently negotiating a long-term contract with the Coal Valley mine, and hopes to maintain or increase the volume handled from this mine in 2007.

The Company has also handled coal under short-term contracts with two other companies in 2006. Pine Valley Mining Corp. shipped coal to the terminal from their Willow Creek mine beginning late in 2005. These shipments stopped when Pine Valley filed for creditor protection and stopped production in October 2006.

NEMI Northern Energy & Mining Inc. opened their Trend Mine in February 2006 and all the coal from this mine is expected to be shipped through Ridley Terminals Inc. This mine ceased production part-way through 2006 while NEMI made improvements to the coal processing plant.

While the mine was closed, NEMI also filed for creditor protection while it completed a corporate restructuring. This restructuring was completed in November 2006, and has resulted in NEMI transferring its Trend mine into the Peace River Coal Limited Partnership. NEMI owns 20% of the partnership, with Anglo Coal Canada Inc. owning 60% and Hillsborough Resources Limited owning the remaining 20%. Ridley Terminals Inc. hopes to conclude a long-term agreement with the Peace River Coal Limited Partnership in 2007.

Petroleum Coke was received primarily from the Husky heavy oil upgrader in Lloydminster, Saskatchewan and from the Suncor oil sands operations in Fort McMurray, Alberta. A small volume of additional petroleum coke was received from Regina, Saskatchewan. These shipments are handled under short-term agreements.

The total volume of petroleum coke shipped increased by 22%, with 467,000 tonnes loaded in 2006 compared with 383,000 tonnes in 2005. Shipments of petroleum coke fluctuate depending on market conditions for the sale of petroleum coke in overseas markets.

Throughput Rates

In 2006, total terminal revenue divided by total tonnes shipped resulted in an average of $4.54 per tonne shipped. This was lower than the result in 2005 of $5.37 per tonne. There are a number of factors that resulted in this decrease.

In 2006 the number of tonnes shipped was 205,000 greater than the number of tonnes received. As half of the Company's revenue is paid on tonnes received and the other half was paid on tonnes shipped, the average revenue decreased because only the half of the revenue charged for shipping was earned in 2006 on these 205,000 tonnes.

The opposite result occurred in 2005, where 272,000 more tonnes were received than were shipped. As a result, in 2005 the revenue for receiving exceeded the revenue for shipping. Dividing the total revenue by the tonnes shipped therefore increased the average revenue per tonne shipped.

The confidential throughput rates paid per tonne are negotiated individually with each customer. The rates negotiated can be impacted by the value of the product being shipped; by the number of times the product is turned over during the year; by the need for new mines in their start-up period to receive lower rates; and by other factors. A customer whose product has a slow turnover generally results in less revenue to the Company for the storage yard space reserved for that product, and can therefore justify higher rates.

Another reason the average revenue per tonne shipped was higher in 2005 was because total terminal revenue included the storage revenue received in 2005. No storage revenue was received in 2006. Storage revenue is discussed below.

Despatch

Ridley Terminals Inc. earns despatch revenue when the time taken to load a ship is less than the laytime allowed. If the time taken to load exceeds the laytime allowed, the Company must instead pay demurrage to the vessel. This demurrage is netted against the despatch revenue. The Company earns despatch on most vessels loaded.

In 2006 the Company earned $464,000 in net despatch revenue on 58 ships loaded. This compares with $247,000 in net despatch revenue on 25 ships loaded in 2005. Ridley Terminals Inc. expects to earn greater despatch revenue in 2007 as a greater number of ships will be loaded. The despatch revenue will also increase when the Company returns to operating 24 hours per day, 7 days per week as ship loading will then be continuous, reducing the time taken to load each ship.

Lines & Berthage

Each ship that is loaded at the Company's berth pays lines and berthage fees. Lines revenue is a flat fee per ship, while berthage revenue is dependent on the size of the vessel and the length of time the vessel is at the berth. Ridley Terminals Inc. received significantly more lines and berthage revenue in 2006 because of the greater number of ships loaded.

Storage Revenue

The Company's throughput contracts generally include provisions for customers to pay storage revenue to the Company if their product exceeds storage limits for more than 30 days. In most years Ridley Terminals Inc. does not earn any storage revenue because the Company's customers turn over their product by loading it onto ships soon after it arrives at the terminal.

In 2005 the Company reached a settlement with a customer on the final amount owing for storage of their product in 2003. As a result, Ridley Terminals Inc. earned storage revenue of $336,000 in 2005. No storage revenue was earned in 2006.

Other Revenue

Other revenue during the year amounted to $79,000, a decrease from the other revenue of 95,000 in 2005. This category includes revenue for providing extra services to the Company's customers. For example, in 2006 the Company earned revenue for screening a customer's product on site. Other revenue is not expected to change significantly in 2007.

Investment Income

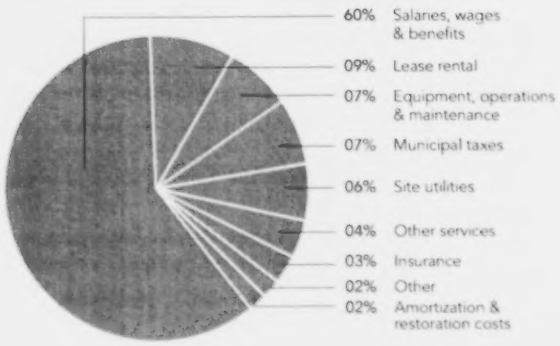
The Company earned investment income of $44,000 in 2006, a decrease from the investment income of $50,000 in 2005. This decrease was a result of the Company holding a lower average cash balance in 2006 as compared with 2005. Ridley Terminals Inc. expects to earn a greater amount of investment income in 2007 as revenues increase, resulting in a higher average cash balance.

EXPENSES

Salary, wages & benefits are the Company's largest operating expense, accounting for 60.0 % of operating expenses in 2006 and 56.7% of operating expenses in 2005. The major components of salary, wages & benefits are as follows:

Salary, Wages & Benefits	2006 ($000's)	2005 ($000's)
Base salary & wages	4,367	3,600
Exceptional pay	1,517	844
Pension benefits	679	551
Medical benefits	460	370
Statutory benefits	234	203
Productivity Bonus	232	124
Other	180	147
Total Salary, Wages & Benefits	7,669	5,839

2006 Operating Expenses



The Company's current collective agreement expires on June 30, 2007. While the following discussion will provide an indication of how the Company's costs are expected to change in 2007, it is not possible to forecast the changes that will be incorporated in the new collective agreement.

Base salary and wages

The significant increase in the number of employees during 2006 had the largest impact on the amounts paid for salary, wages & benefits. Ridley Terminals Inc. had 46 employees at the beginning of the year, and 60 employees by the end of the year. The Company expects to hire an additional 10 to 15 employees in the first quarter of 2007. This hiring is necessary in order for the Company to return to operating 24 hours per day, 7 days per week. By increasing its operating hours, Ridley Terminals Inc. will be better able to meet its customers' needs for faster turn-around of trains and ships at the terminal.

The Company's collective agreement provides for increases to wages twice each year, based on the increase in the consumer price index (CPI) for Vancouver. All non-union employees receive increases based on the same formula. During 2006 salaries and wages increased by 2.1% as a result of the CPI increase.

Exceptional pay

In addition to base salary and wages, the collective agreement provides for overtime pay and for a number of other premiums and differentials. Most of the Company's non-union employees are also eligible for this additional pay. The CPI increase to base salary and wages was a factor in the increases to exceptional pay in 2006.

Most overtime is paid at 2 times the base hourly rate. During 2006, 72% of the exceptional pay was for overtime.

The union employees' normal work day is a 12 hour shift. In order to minimize delays in loading ships and unloading trains, our employees often worked an additional 4 hours of overtime at the end of their shift. Overtime was also required for major maintenance projects. Ridley Terminals Inc. believes that when the Company returns to operating 24 hours per day, 7days per week there will be an overall reduction in overtime pay, particularly with respect to the unloading of trains.

Employees are allowed to bank a portion of the overtime and take those hours off at a later time. They are also able to bank a portion of the additional pay the Company is required to pay for work on Statutory holidays. The Company's exceptional pay expense is reduced by the value of the banked time taken off.

The employees also receive a number of premiums and differentials. Employees are paid a premium of 50% of their base pay for regular hours worked on Sunday. During 2006 the Company employed a schedule that resulted in most employees working one Sunday out of three. In 2007 the Company expects to change to a schedule that will result in employees working every second Sunday, which will increase Sunday premium costs.

Shift differentials are paid to employees working the 12 hour shift. This amounted to $1.40 per hour at the end of 2006. First aid differentials are paid to employees with qualifying first aid certificates.

Pension benefits

Pension benefit expense is calculated in accordance with generally accepted accounting principles. These requirements are set out in Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants. The Company relies on the work of its actuary, Mercer Human Resource Consulting, to calculate the required pension benefit expense in accordance with these requirements.

In 2006 the pension expense increased to $679,000 from the expense of $551,000 in 2005. This increase arose primarily from two factors. The plan liabilities, on a solvency basis, increased significantly at the end of 2005 because long-term interest rates had decreased. At the same time, the return on the assets held in the pension plan was less than expected.

At the end of 2006, there was only a small increase in the liabilities for the plan, due in part to the fact that long-term interest rates had increased slightly. The asset values in the plan increased significantly, due both to the extra contributions made to the plan by the Company during 2006 and by very good returns on plan assets in the fourth quarter of 2006. As a result of these changes and other factors, the actuary has advised the Company that the pension benefit expense in 2007, calculated in accordance with generally accepted accounting principles, will decrease to $257,900.

Medical benefits

In order to attract and retain employees, Ridley Terminals Inc. has a comprehensive medical benefit program. This program includes life insurance, long-term disability insurance ("LTD"), extended health benefits and dental benefits. The life and LTD benefits are affected by increases to each employee's salary or wage rate. They are also impacted by the average age of the workforce, and to a lesser extent by the Company's claim experience. Ridley Terminals Inc. has had an increasing average age of employees for a number of years, and this has been one factor that has seen the cost of life and LTD insurance increase.

Extended health and dental benefit rates are primarily affected by the Company's claims experience. This experience has seen increasing claims per employee in most years. As a result, the costs for these benefits have seen significant increases. Rates for medical benefits are renewed in August of each year.

Statutory benefits

Statutory benefits consist of the Company portion of Canada pension plan ("CPP") and employment insurance ("EI") premiums, together with premiums paid to the Workers Compensation Board of BC ("WCB"). CPP and EI premiums are based on rates set by the Government of Canada. CPP rates were unchanged in 2006, while EI premium rates decreased. For 2007, a further reduction in EI premiums has been announced, while CPP rates will not change.

WCB rates are set on an industry-wide basis. For the last few years these rates have been decreasing. The Company's own safety record also impacts the WCB rate. Ridley Terminals Inc.'s excellent safety record has resulted in the Company receiving discounts to the average industry rate. As a result, the Company's WCB rate decreased in 2006 and again in 2007.

Productivity Bonus

Ridley Terminals Inc. pays a productivity bonus to all employees. This bonus is the accumulation of one-half of the net despatch revenue earned by the Company. This bonus has proved successful in encouraging all employees to focus on loading ships promptly and efficiently.

Other

There are a number of other costs included in the salary, wages & benefits category. These include costs for recruitment and relocation of new employees; training costs for employees, conferences, and tool and fitness allowances. The increase in these costs in 2006 was primarily due to additional recruitment costs and to conference costs. The Company sent representatives to the Canadian Conference on Coal and the Coal Export Terminal Operators Association Conference. Both of these conferences only occur every second year.

Lease Rental

Lease rental costs are paid to the Company's landlord, the Prince Rupert Port Authority, primarily as a rate per tonne shipped. Consistent with the significant increase in the volumes shipped in 2006, this expense increased to $1.09 million, compared with $0.37 million in 2005. Lease rental costs are expected to increase significantly again in 2007 as the volumes shipped continue to grow.

Equipment operations and maintenance

Equipment operations and maintenance costs decreased from $1.22 million in 2005 to $0.95 million in 2006. The largest part of equipment maintenance costs is usually the annual painting contract, but no painting was incurred in 2006. While this provided for the decrease in costs in 2006, the Company expects to catch up with a much larger amount of painting completed in 2007. Equipment maintenance costs are also expected to increase in 2007 as the Company has planned two major conveyor belt replacements.

Site Utilities

The Company's largest utilities cost is for electricity, followed by the cost of natural gas. Site utilities increased from $0.59 million in 2005 to $0.77 million in 2006. The increased volume handled in 2006 was the primary reason for the increase in utility costs.

Other Services

Other services is largely made up of fees paid for outside services such as contract equipment inspection, engineering and other consulting services, and legal services. These costs were slightly less in 2006 than the costs incurred in 2005.

Insurance

Ridley Terminals Inc. maintains comprehensive property and risk insurance coverage. The Company relies on the advice of its insurance broker, Aon Reed Stenhouse, in the design of this coverage and selection of insurance companies to provide the required policies. Insurance costs increased slightly, to $0.41 million in 2006 from $0.38 million in 2005.

Office services and supplies

Office services and supplies increased from $0.25 million in 2005 to $0.29 million in 2006. This cost increase was due to increased janitorial costs and higher spending on computer supplies and maintenance. The Company expects a further increase in janitorial costs in 2007 when the terminal returns to operating 24 hours per day, 7 days per week.

Amortization and restoration costs

Amortization and restoration costs increased 16% from $0.21 million in 2005 to $0.23 million in 2006. This increase came about as a number of new capital assets, including 4 new vehicles, were purchased in 2006. These assets replaced fully depreciated assets. In 2007, Ridley Terminals Inc. expects the wood pellet terminal to be completed and begin operating, and the costs capitalized toward this project will be depreciated. The sulphur terminal is not expected to be complete until 2008.

CASH RESOURCES AND LIQUIDITY

In 2006 the Company's cash balance decreased from $1.07 million to $0.33 million. As Ridley Terminals Inc. was not generating sufficient cash to sustain its operations, the Company also received contributions from Transport Canada to cover its operating losses and capital additions. In accordance with the terms of this contribution agreement Ridley Terminals Inc. could not claim amounts that would bring its cash balance over $1.00 million.

The Company claimed $1.52 million towards the operating cash shortfall and $0.28 million for capital assets, for a total of $1.80 million for 2006. At the end of 2006 $0.67 million of these government contributions were receivable from the Crown.

For 2005 the Company received $4.48 million in contributions towards the operating cash shortfall and $2.63 million for capital assets, for a total of $7.11 million. In addition to these amounts Ridley Terminals Inc. received an excess contribution for 2005 of $0.96 million. This amount must be repaid to the Crown and is shown as a liability on the balance sheet.

$2.45 million of the contributions in 2005 related to the settlement of a number of lien claims. This amount was included in capital additions, as part of the development of the sulphur terminal assets.

Ridley Terminals Inc. does not have a contribution agreement from Transport Canada for 2007, and the Company believes it will generate sufficient cash from its operations to maintain its operations.

PENSION

The Company maintains two pension plans for its employees. The Ridley Terminals Inc. Employee Pension Plan provides benefits for all of the Company's team members, while the Supplemental Pension Plan for Managers of Ridley Terminals Inc. provides a "top-up" for team members whose pensions would be limited by the cap on the maximum pension payable from the base pension plan imposed by the Canada Revenue Agency.

The Company's total contribution to the Ridley Terminals Inc. Employee Pension Plan was $1.39 million in 2006, compared with $0.97 million in 2005. The actuarial valuation of this pension plan as at January 1, 2006 determined that the plan had a going concern deficit of $1,005,000. As a result of this deficit, Ridley Terminals Inc. is required to make additional contributions of $39,000 for fifteen years beginning in 2005 plus additional contributions of $65,600 for fifteen years beginning in 2006.

The actuarial valuation also determined that the plan had a solvency ratio of 82.7%. As a result, Ridley Terminals Inc. is required to make additional contributions to eliminate the shortfall consisting of $142,800 per year for a period of five years commencing in 2004, plus $174,000 per year for a period of five years commencing in 2005, plus another $505,600 per year for a period of five years commencing in 2006.

The current service cost of the plan is determined as a percentage of members' pensionable earnings. This contribution rate has increased for a number of years, from 11.0% in 2003, to 13.7 % in 2004, to 14.6% in 2005 and to 14.9% in 2006.

The funding requirements for the pension plan in 2007 will be determined when the actuarial valuation of the pension plan as at January 1, 2007 is completed. The Company is required to continue annual actuarial valuations while the solvency ratio remains less than 100%.

The Company's contribution to the Supplemental Pension Plan for Managers of Ridley Terminals Inc. was $129,000 in 2006. This was double the normal contribution rate, as no contribution was made in 2005.

CAPITAL ASSETS

For a number of years, and particularly while the Company's cash flow was not sufficient to cover its operating costs, the purchase of capital assets has necessarily been kept to a minimum. The largest increase to capital assets has been the amounts capitalized towards the Company's sulphur terminal assets. These costs included the amount of the lien settlement noted above, together with other costs such as municipal taxes and lease rental.

The 2007 capital budget for Ridley Terminals Inc. is much larger, as the Company expects to have excess cash flow from operations, and to use that cash flow towards projects that will enhance the operational efficiency and safety of the terminal. Major items included in the 2007 capital budget include a project for automation of the Company's stacker-reclaimers; replacement of a bulldozer; and work toward modifying the rail car dumper to handle aluminum rail cars.

LEGAL CLAIMS

There are no claims outstanding against Ridley Terminals Inc. that are expected to have a material impact on the Company's financial position, results of operations or liquidity.

ACCOUNTING PRINCIPLES

The Company's financial statements have been prepared in Canadian dollars, and in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These principles have been applied on a basis consistent with that of the previous year.

OUTLOOK

The Company recorded a profit in 2006, after recording losses in four of the five previous years. In order to maintain profitable operations and improve the Company's results, additional new volumes of product are required.

The best opportunity for additional volume is expected to come from the Company's traditional coal handling business. Sales prices for metallurgical coal reached record levels in 2005, and remain higher than historic prices. Some mines have expanded their production and a number of new mines have opened. In addition, considerable activity towards developing new coal mines in Canada, and particularly in the Company's traditional Northeast BC market, is ongoing.

As noted above in the discussion of throughput volumes, Ridley Terminals Inc. is optimistic that coal volumes will continue to increase in 2007.

Diversification remains a key objective for the Company. Being dependent almost exclusively on coal has demonstrated the difficulty of operating the terminal when that one commodity runs into difficulty. Diversification is therefore essential to help reduce the likelihood of financial difficulties in the future.

Ridley Terminals Inc. expects the wood pellet terminal currently under construction to be completed and operating in the second quarter of 2007. While the initial volumes to be handled in this terminal will be small, the Company hopes that they will grow into more substantial volumes in future years.

During 2006 Ridley Terminals Inc. signed a Project Agreement for the development of part of the incomplete sulphur terminal assets. The Company expects construction to complete this facility to commence in 2007, and that the terminal will begin to handle sulphur in 2008.

OPERATIONAL RISKS

The Company's source of revenue is from the handling of bulk products, the majority of which are currently handled under short-term contracts. The loss of a customer, or the inability to enter into new contracts, would have a significant impact on the Company's revenue, level of operations, and bottom line.

Ridley Terminals Inc. operates a highly automated terminal utilizing large mechanical equipment. The failure of any of this equipment would impact the Company's earnings and cash flows. Insurance coverage is in place to reduce the Company's risk from equipment failure.

There are no significant environmental or health & safety risks facing the company. Procedures are in place to address minor environmental risks such as spills of lubricating oil or fuel. The Company investigates what additional procedures or precautions are required for the safe and environmentally sound handling of any new products, including the wood pellet and sulphur terminal developments. Ridley Terminals Inc. has registered management systems for Quality, Environment and Health & Safety. These management systems help the company to identify and reduce its risks.

> CORPORATE GOVERNANCE

Ridley Terminals Inc. was incorporated under the Canada Business Corporations Act on December 18, 1981, and on July 31, 1991 became a wholly-owned subsidiary Crown Corporation. On November 1, 2000 the Canada Marine Act came into force and the Company became a parent Crown Corporation named in Part I of Schedule III of the Financial Administration Act. In 2007, subject to the approval of the Minister of Transport, Infrastructure & Communities and Treasury Board, the Company plans to adopt the name Ridley Terminals Canada in compliance with the Federal Identity Program.

The Minister of Transport, Infrastructure & Communities, with the approval of the Governor in Council, appoints the Directors of the Company, including the Chairman & Chief Executive Officer. The Board of Directors is responsible to the Crown for the stewardship of the Company. To carry out this responsibility the Board reviews and approves the strategic direction for the Company, as set out in the Corporate Plan. The Board also monitors actual performance against the plan at its regular meetings with management.

In 2005 the Treasury Board of Canada Secretariat released its report **Review of the Governance Framework for Canada's Crown Corporations - Meeting the Expectations of Canadians**. Measure #6 of that report states "The government will enact the legislative changes required to ensure a split in the positions of Chief Executive Officer and Chair of the Board for Crown corporations."

During 2006 the Board of Directors prepared a draft amendment to the Company's Administrative By-Law. This amendment would separate the positions of Chair and Chief Executive Officer. The Board expects this amendment to be approved in 2007, in conjunction with the appointments of a Chair and a President and Chief Executive Officer for Ridley Terminals Inc.

The Board considers, as it makes its decisions, the impact of those decisions on all of the stakeholders of the Company. Those stakeholders include the shareholder, the employees of the Company, the local community, and the regional economy along the Northwest Corridor. In the end, the Board must exercise its responsibility to make its decisions in the best interest of the Company.

The Board exercises its responsibilities for financial reporting and internal controls through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management and with the internal and external auditors to review the scope and result of the annual audits, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

The Office of the Auditor General of Canada completed a Special Examination of the Company during 2005. This report is available on the Company's web site, www.rti.ca. In their report, they made a number of recommendations to improve the Company's corporate governance. Changes implemented to date include the appointing of internal auditors and the approval of the Company's 2006-2010 Corporate Plan. As noted above, the separation of the positions of Chair and CEO is also in progress. Progress on some of the other recommendations has been delayed while the Company awaits the appointment of a Chair.

The Board is also responsible for assessing the effectiveness of the Chairman and CEO, the President & COO and the Board as a whole. The Board has reviewed the Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises published by the Department of Finance and the Treasury Board Secretariat. The Board reviews these guidelines regularly in order to identify and address specific areas of governance.

In May 2006, the term of the Chairman & CEO, Mr. Mike Tarr, expired. The Board thanks Mr. Tarr for his guidance and leadership in this role.

The current Board of Directors, and their terms, are as follows:

Rhoda R. Witherly
Notary Public
Term: 3 years to April 30, 2006

Susanne Stushnoff
Solicitor
Term: 3 years to April 13, 2008

Wayne H. Stoilen
Chartered Accountant
Term: 3 years to April 13, 2008

Penelope Denton
Registered Nurse (retired)
Term: 3 years to May 10, 2008

> MANAGEMENT RESPONSIBILITY

The accompanying financial statements of Ridley Terminals Inc., and all information in the annual report pertaining to the Company, are the responsibility of management, and have been approved by the Board of Directors.

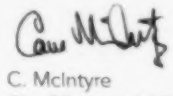
These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise, because they include some amounts that are based on estimates and judgements. Management has determined such amounts on a reasonable basis. Financial information used in the annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting and administrative controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management and with the external auditors to review the scope and result of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

These financial statements have been independently audited in accordance with Canadian generally accepted auditing standards by the Company's external auditor, the Auditor General of Canada, and her report is included with these financial statements.

G. Slocombe
President and Chief Operating Officer



C. McIntyre
Chief Financial Officer

February 9, 2007

> AUDITOR'S REPORT

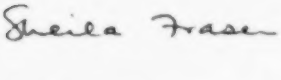
To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Ridley Terminals Inc. as at December 31, 2006 and the statements of income (loss) and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Company that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act, the Canada Marine Act and regulations, and the articles and by-laws of the Company.



Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
February 9, 2007

> BALANCE SHEET

December 31
(in thousands)

	2006 $	2005 $
ASSETS		
Current assets		
Cash	330	1,068
Accounts receivable (Note 4)	2,479	329
Government contribution receivable (Note 13)	670	570
Inventory	3,285	2,574
Prepaid expenses	115	106
	6,879	4,647
Capital assets (Note 5)	12,361	12,073
Accrued pension benefit asset (Note 6)	1,436	593
Other long-term assets (Note 7)	745	784
	21,421	18,097
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,298	857
Government contribution repayable (Note 13)	960	–
	2,258	857
Long-term liabilities		
Asset retirement obligation (Note 8)	2,118	2,056
Deferred government contributions towards capital assets (Notes 9, 13)	3,084	2,844
Accrued lease obligation (Note 14)	87	130
	5,289	5,030
	7,547	5,887
SHAREHOLDER'S EQUITY		
Capital stock (Note 10)	136,042	136,042
Contributed surplus (Note 10)	64,000	64,000
Accumulated deficit	(186,168)	(187,832)
	13,874	12,210
	21,421	18,097

Commitments and Contingencies (Notes 14, 15)

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

Director

Director

> STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT

Year Ended December 31
(in thousands)

	2006 $	2005 $
Revenues		
Terminal revenue	12,882	5,452
Investment income	44	50
	12,926	5,502
Expenses		
Salaries, wages and benefits	7,669	5,839
Lease rental (Note 14)	1,093	374
Equipment operations and maintenance	954	1,223
Municipal taxes	915	956
Site utilities	767	585
Other services	457	497
Insurance	408	384
Office services and supplies	292	248
Amortization and restoration costs	229	214
	12,784	10,320
Income (loss) before government assistance	142	(4,818)
Government assistance (Note 13)	1,522	4,477
Net income (loss)	1,664	(341)
Accumulated Deficit, beginning of year	(187,832)	(187,491)
Accumulated Deficit, end of year	(186,168)	(187,832)

The accompanying notes are an integral part of the financial statements.

> STATEMENT OF CASH FLOWS

Year Ended December 31
(in thousands)

	2006 $	2005 $
OPERATING ACTIVITIES		
Net income (loss)	1,664	(341)
Non-cash items		
Amortization of capital assets	202	168
Amortization of government contributions towards capital assets (Note 9)	(35)	(14)
Gain (loss) on disposal of capital assets	(5)	3
Accrued lease obligation	(13)	–
Asset retirement expense (Note 8)	62	59
Accrued pension benefit asset	(843)	(418)
Changes in working capital items		
Accounts receivable	(2,150)	345
Government contribution receivable	(100)	(570)
Inventory	(711)	254
Prepaid expenses	(9)	77
Accounts payable and accrued liabilities	441	(214)
Government contribution payable (Note 13)	960	–
Cash flows used in operating activities	(537)	(651)
INVESTING ACTIVITIES		
Additions to capital assets	(490)	(2,883)
Proceeds on disposal of capital assets	5	–
Deferred lease rental payment (Note 14)	–	(550)
Recovery of deferred lease rental payment	39	6
Accrued lease obligation	(30)	(43)
Cash flows used in investing activities	(476)	(3,470)
FINANCING ACTIVITIES		
Government contributions for capital assets (Note 13)	275	2,636
Cash flows from financing activities	275	2,636
Net decrease in cash	(738)	(1,485)
Cash, beginning of year	1,068	2,553
Cash, end of year	330	1,068

The accompanying notes are an integral part of the financial statements.

> NOTES TO FINANCIAL STATEMENTS

December 31, 2006
(amounts in tables are in thousands)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act on December 18, 1981, operates a bulk commodity facility on Ridley Island in Prince Rupert, British Columbia. On June 11, 1998, the Canada Marine Act received Royal Assent. This Act came into force on November 1, 2000, at which time the Canada Ports Corporation Act was repealed and the Canada Ports Corporation was dissolved. Under the Canada Marine Act, Ridley Terminals Inc. became a parent Crown corporation named in Part I of Schedule III of the Financial Administration Act. On September 29, 2005, the Governor in Council issued a directive, pursuant to section 89 of the Financial Administration Act, directing the Company to refrain from entering into any long-term (longer than 18 months) contract or license agreement to handle commodities, without the written consent of the Minister of Transport, Infrastructure and Communities. This directive was rescinded on February 7, 2006. The Company is a federal Crown corporation exempt from income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Revenue recognition

Throughput revenue is determined by mulitplying the contracted throughput rate by the number of tonnes handled, and constitutes the majority of the Company's Terminal Revenue. 50% of the throughput revenue is recognized at the time the product is received at the terminal facility. The remaining 50% is recognized after the product is loaded on a vessel.

Inventory valuation

Inventory consists of supplies, consumables and repair parts. Inventory is valued at the lower of average cost and replacement cost.

Amortization

The terminal facility includes all costs incurred during construction (including the associated costs of engineering, administration, interest, insurance and site rental) and capital additions thereafter. The terminal facility also includes the fair value of the liability for an asset retirement obligation. This amount is added to the carrying amount of the asset in the period incurred and will be amortized over the asset's useful life. In 2002, the recorded value of the terminal facility was written down to the minimum residual recoverable value upon their disposition either intact as a going concern or on a salvage basis. With the exception of the sulphur terminal and wood pellet terminal assets, amortization is being recorded on the residual value, less salvage value, using the straight-line basis over 34 years. No amortization has been recorded on the sulphur terminal and wood pellet terminal assets as they are not complete and not in use.

Other assets are amortized over their useful lives according to the straight-line method and at the following annual rates:

Machinery and equipment	10% and 20%
Office furniture and equipment	20% and 33%

Asset retirement obligation

The fair value of the liability for an asset retirement obligation is recognized in the period incurred, for example, upon acquisition of an asset. This value is subsequently adjusted for any changes resulting from age, changes in regulatory requirements and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The associated retirement costs are capitalized as part of the carrying amount of the capital asset and amortized over the life of the asset. The liability is increased over time through periodic charges to income and it is reduced by actual costs of decommissioning and reclamation. Expenditures relating to ongoing environmental programs are charged against income as incurred.

Employee pension plans

The Company accrues its obligation under employee pension plans net of plan assets. The Company has adopted the following policies:

- The cost of the pension benefits earned by employees, including the indexing of pensions, is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- When the restructuring of a pension plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement;
- The excess of the net actuarial gain (loss) over 10% of the greater of the pension obligation and the fair value of plan assets is amortized over the average remaining service period of active employees; and
- The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees.

Government Assistance

As the Government of Canada is the shareholder of the Company, government assistance received for the repayment of debt is recorded as contributed surplus. Government assistance for the Company's cash operating shortfalls is recorded as income. Government assistance for the Company's capital assets is deferred and amortized to income on the same basis as the related capital asset.

3. FUTURE VIABILITY OF THE COMPANY

Over the last three fiscal years, Ridley Terminals Inc. has not generated sufficient revenues to meet its operating requirements. In order to continue operations as a going concern, the Company is dependent on earning additional revenue or receiving additional contributions from the Government of Canada. The Company's dependence on existing customers is discussed in Note 16.

In February 2006, the Government of Canada announced it had set aside the process that was underway to divest the Company. Following that announcement, Transport Canada has continued to consider options for the future of the Company to address the Company's viability.

4. ACCOUNTS RECEIVABLE

	2006	2005
	$	$
Accounts receivable		
Trade	2,359	280
Other	120	49
	2,479	329

5. CAPITAL ASSETS

			2006	2005
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Terminal facility	239,198	230,936	8,262	8,303
Sulphur terminal	3,763	–	3,763	3,675
Wood pellet terminal	168	–	168	–
Machinery and equipment	2,017	1,895	122	77
Office furniture and equipment	1,509	1,463	46	18
	246,655	234,294	12,361	12,073

At December 31, 2004, the Company was subject to various claims and legal proceedings by creditors involved in the construction of the sulphur terminal. During 2004, management negotiated settlement agreements with the creditors, subject to approval of the Government of Canada. In January 2005, the required approval was received and, in March 2005, the Company received approval from the Government of Canada for the funds required to settle the claims as part of the contribution agreement for January to April 2005 (Note 13). The payment to these creditors and the associated legal costs of $2,450,937 has been capitalized in accordance with the Company's accounting policies.

6. ACCRUED PENSION BENEFIT ASSET

The Company provides pension benefits to its employees through defined benefit pension plans. These plans provide a pension based on the highest 60 consecutive months' pensionable earnings of the employee, and pensions are indexed at 3% per annum.

	2006	2005
	$	$
Company current service cost	702	617
Interest cost	1,152	1,120
Actual return on plan assets	(2,545)	(1,549)
Actuarial loss on accrued benefit obligation	(845)	2,900
Costs arising in the period	(1,536)	3,088
Differences between costs arising in the period and cost recognized in the period in respect of:		
Return on plan assets	1,228	397
Actuarial gain	1,170	(2,751)
Transitional asset	(183)	(183)
Net periodic pension cost recognized	679	551

Information about the Company's defined benefit pension plans as at the measurement date of December 31, 2006 in aggregate is as follows:

	2006	2005
	$	$
Accrued benefit obligation at beginning of year	22,829	18,480
Company current service cost	702	617
Interest cost	1,152	1,120
Employee contributions	153	126
Benefits paid	(829)	(414)
Actuarial (gain) loss	(845)	2,900
Accrued benefit obligation at end of year	23,162	22,829
Fair value of plan assets at beginning of year	18,660	16,432
Actual return on plan assets	2,545	1,549
Company contributions	1,522	967
Employee contributions	153	126
Benefits paid	(829)	(414)
Fair value of plan assets at end of year	22,051	18,660
Funded status - deficit at end of year	(1,111)	(4,169)
Unamortized transitional asset	(902)	(1,085)
Unamortized net actuarial loss	3,449	5,847
Accrued pension benefit asset	1,436	593

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	%	%
Discount rate at beginning of year, used to determine the net periodic pension cost	5.00	6.00
Discount rate at end of year, used to determine year-end disclosures	5.25	5.00
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	3.00	3.00
Indexation of pension	3.00	3.00

The plan assets are invested in a balanced pooled fund managed by two independent Investment Managers.

The average remaining service period of the active employees covered by pension plans is 11 years (2005 - 11 years).

The most recent actuarial valuation for funding purposes was as at December 31, 2005. This valuation identified a going concern deficit of $1,005,000. The required payments to fund this deficit are $39,000 per year over 15 years starting in 2005, and $65,600 per year over 15 years starting in 2006. The valuation also identified a solvency deficiency of $2,256,000, and a solvency ratio of 82.7%. Because the solvency ratio is less than 100%, the Company is required to make special payments of $142,800 per year over five years starting in 2004, of $174,000 per year over five years starting in 2005, and of $505,600 per year over five years starting in 2006, to eliminate the shortfall. The next actuarial valuation for funding purposes will be as at December 31, 2006 but is not yet complete.

At December 31, 2006, the future required payments to fund the going concern deficit and special payments to fund the solvency deficiency were, in aggregate:

	$
2007	927
2008	927
2009	784
2010	610
2011	105
Subsequent years	902
Total minimum funding payments	4,255

7. OTHER LONG-TERM ASSETS

	2006	2005
	$	$
Deferred lease rental payment (Note 14)	505	544
Advance to an officer, secured by a mortgage, without interest or fixed repayment terms	240	240
	745	784

The fair value of the advance to an officer cannot practicably be determined due to the lack of an available trading market.

8. ASSET RETIREMENT OBLIGATION

	2006	2005
	$	$
Balance, beginning of year	2,056	1,997
Accretion expense	62	59
Balance, end of year	2,118	2,056

Under the terms of the Company's land lease with Prince Rupert Port Authority (Note 14), the Company is required to return the land to the condition the land was in at the commencement of the lease. This obligation includes alleviating any environmental damage to the land and the cost of removing certain of the Company's terminal assets from the land.

The ultimate amount of future site restoration costs to be incurred is uncertain. The amount recorded as the asset retirement obligation is based on a number of assumptions. These assumptions include the undiscounted estimated cost of alleviating environmental damage of $1,806,111 and the undiscounted estimated cost of removing terminal assets of $1,800,000, both of which are expected to be incurred at the end of the estimated useful life of the Company's terminal assets in 2024. These costs are discounted at the credit-adjusted risk-free rate of 3%.

During 2006, there were no new liabilities incurred, no liabilities settled and no revisions to estimated cash flows.

9. DEFERRED GOVERNMENT CONTRIBUTIONS TOWARDS CAPITAL ASSETS

	2006	2005
	$	$
Balance, beginning of year	2,844	222
Deferred government contributions received during the year (Note 13)	275	2,636
Amortization of government contribution towards capital assets	(35)	(14)
Balance, end of year	3,084	2,844

10. CAPITAL STOCK & CONTRIBUTED SURPLUS

Authorized

2,000,000 common shares without par value

1,960,000 class "A", 18% non-cumulative redeemable preference shares with a stated value of $25.55 per share

217,052 class "B", 20% non-cumulative redeemable preference shares with a stated value of $230.00 per share

	2006	2005
	$	$
Issued and fully paid		
2,000 common shares	90,001	90,001
900,997 class "A" shares	23,021	23,021
100,089 class "B" shares	23,020	23,020
	136,042	136,042

In February 2004, the Company entered into a contribution agreement with the Government of Canada. This agreement provided the funds necessary to pay out the Company's debt obligation of $64 million. These funds have been recorded as contributed surplus in the shareholder's equity section of the Balance Sheet.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company invests its funds with a Canadian chartered bank.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair market value based on the short-term maturity of these instruments.

12. RELATED PARTY TRANSACTIONS

Ridley Terminals Inc. is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Company enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. The contribution agreements with the Government of Canada described in Notes 5, 9 & 13 and the lease agreements with the Prince Rupert Port Authority described in Note 14 are related party transactions.

13. GOVERNMENT ASSISTANCE

	2006	2005
	$	$
Operating	1,522	4,477
Capital	275	2,636
	1,797	7,113

The Company has entered into contribution agreements with the Government of Canada that provided government assistance for both the operating and capital cash flow requirements of the Company. Government assistance for the Company's operating requirements has been recorded in the Statement of Income (Loss). Government assistance for the Company's capital requirements is deferred and will be amortized to income on the same basis as the related capital assets (Note 9).

$5,036,937 was received for the period January to April 2005. $2,550,937 of this contribution was used to cover the Company's capital requirements. This included $2,450,937 for the settlement of various lien claims against the Company (Note 5). The remaining $2,486,000 was used to cover the Company's operating requirements.

$1,506,000 was received during 2005 under the contribution agreement for the period May to December 2005. A final payment of $1,530,000 was received during 2006, of which $569,572 was owing to the Company at December 31, 2005. The remaining $960,428 of this final payment will be repaid to the Government of Canada and is shown as a liability at December 31, 2006. $1,990,572 of these contributions was used to cover the Company's operating shortfall, bringing the total contributions required for the Company's operating shortfall for 2005 to $4,476,572. The remaining $85,000 of these contributions was used for the Company's capital requirements, bringing the total contributions for the Company's capital requirements for 2005 to $2,635,937.

$1,127,000 was received during 2006 under the contribution agreement for the period January to December 2006. An additional $670,000 owing to the Company at the end of the year is shown as a receivable on the balance sheet. $1,522,353 of these contributions was used to cover the Company's operating shortfall. The remaining $274,647 of these contributions was used for the Company's capital requirements.

14. COMMITMENTS

The Company leases land from the Prince Rupert Port Authority for its terminal facility. The original lease is for twenty-five years commencing in 1984 with a twenty-year renewal term. Lease payments are based on a rate per tonne of throughput, which is subject to escalation provisions based on increases in the Consumer Price Index for each year.

During 2005, the Company entered into an agreement with the Prince Rupert Port Authority which is expected to result in an extension of the twenty-year renewal term to a thirty-year renewal term. As part of this agreement, the Company made an advance payment of $550,000 of lease rental in 2005. The Company is applying this payment against future increases in the lease payment due to the increases in the Consumer Price Index. This payment is included in other long-term assets as a deferred lease rental payment (Note 7).

The sulphur terminal lease is for 10 years commencing in 1999 with two ten-year renewal terms. The Company's sulphur terminal lease with the Prince Rupert Port Authority was re-negotiated in 2002, with the result that lease payments ceased in 2002 and re-commenced in 2004. Total minimum lease payments due under the lease are being expensed on a straight-line basis over the term of the lease. Lease expense in excess of lease payments is shown as an accrued lease obligation in long-term liabilities on the balance sheet.

At December 31, 2006, the future minimum lease payments were:

	$
2007	120
2008	120
Total minimum lease payments	240

15. CONTINGENCIES

The Company is subject to claims and lawsuits arising in the ordinary course of operations. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material financial impact on the Company's financial position, results of operations or liquidity.

16. ECONOMIC DEPENDENCE

The Company is dependent upon the production of 2 coal suppliers who provided 57.7% of the Company's 2006 revenue (2005 - 41.2%). The Company and one of the suppliers have signed a throughput agreement that terminates on March 31, 2010, and provides the supplier with two options of five years each to extend the agreement. The Company and the other supplier do not have a long-term throughput agreement in place. Accounts receivable from these significant customers at December 31, 2006 was $1,704,787 (2005 - $184,161).

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

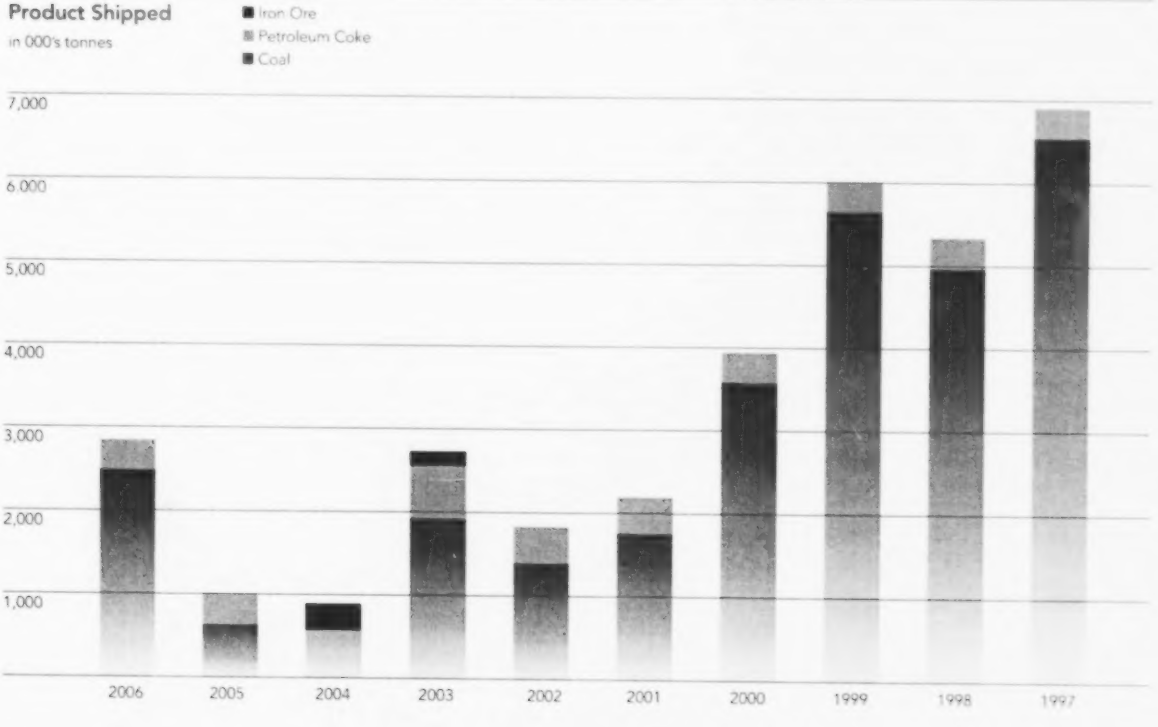
> FIVE YEAR COMPARATIVE INFORMATION

000's	2006	2005	2004	2003	2002
Operations					
Tonnes Shipped	2,836	1,015	905	2,702	1,820
Income					
Revenues	12,882	5,452	4,930	15,897	14,530
Investment Income	44	50	65	76	30
Expenses	(12,784)	(10,320)	(10,033)	(12,556)	(11,720)
Operating Income (Loss)	142	(4,818)	(5,038)	3,417	2,840
Interest Expense on Long-Term Debt	–	–	(210)	(2,244)	(3,298)
Government Assistance	1,522	4,477	3,954	–	–
Write-down of Capital Assets	–	–	–	–	(6,100)
Net Income (Loss)	1,664	(341)	(1,294)	1,173	(6,558)
Capital Expenditures	490	2,883	375	16	672
Balance Sheet at December 31					
Capital Assets	12,361	12,073	9,139	9,176	9,360
Debt	–	–	–	63,961	63,995
Share Capital	136,042	136,042	136,042	136,042	136,042
Contributed Surplus	64,000	64,000	64,000	–	–
Performance Indicators					
Revenue /Tonne Shipped (Note 1)	$4.54	$5.37	$5.45	$5.88	$7.98
Operating Income (Loss) / Revenue	1.1 %	(89.1)%	(103.3)%	21.1 %	19.4 %
Net Income (Loss) / Capital Assets	13.5 %	(2.8)%	(14.2)%	12.8 %	(70.1)%
Number of Team Members at December 31	61	46	45	48	55

Note 1:
In years where the Company has received significant amounts of storage revenue, and in years where there has been a significant increase or decrease in the amount of coal stored at the terminal, the revenue per tonne shipped is not representative of the average throughput rate charged by the Company for the handling of coal through the terminal.

Product Shipped

in 000's tonnes



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Wayne Stoilen *
Chartered Accountant
Delta, BC

Susanne Stushnoff
Solicitor
Edmonton, Alberta

Rhoda R. Witherly *
Notary Public
Prince Rupert, BC

* Member of the Audit Committee

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President & Chief
Operating Officer

Cameron D. McIntyre, CA
Chief Financial Officer
& Corporate Secretary

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Materials Control Coordinator

Thomas P. Harvey
Electrical Coordinator

Mel Kuemper
Mechanical Coordinator

Kenneth J. Lindenberger
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